

Michigan Department of Treasury
496 (Rev.06/08)**Auditing Procedures Report** V1.04

Issued under Public Act 2 of 1988, as amended.

Unit Name	Village of Metamora	County	LAPEER	Type	VILLAGE	MuniCode	44-3-050
Opinion Date-Use Calendar	7/03/08	Audit Submitted-Use Calendar	7/03/08	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input type="checkbox"/>	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? Qualified
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 460,570.00
General Fund Expenditure:	\$ 299,401.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 360,491.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Donald	Last Name	Kuzak	Ten Digit License Number	1101007059		
CPA Street Address	1242 Sand Beach Rd	City	Bad Axe	State	MI	Zip Code	48413
CPA Firm Name	Hyzer, Hill, Kuzak & Co P.C.	Unit's Street Address	48 E High St	City	Metamora	LU Zip	48455

VILLAGE OF METAMORA
LAPEER COUNTY, MICHIGAN

FINANCIAL REPORT
YEAR ENDED MARCH 31, 2008

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Metamora, Michigan

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Village of Metamora, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Metamora's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Village of Metamora as of March 31, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Metamora's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Hryger, Hill, Hryger & Co P.C.

July 3, 2008

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
March 31, 2008

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents, unrestricted	\$ 1,157,403	\$ 169,349	\$ 1,326,752
Cash and cash equivalents, restricted	-	165,348	165,348
Receivables, unrestricted - net of allowance	-	10,712	10,712
Receivables, restricted - net of allowance	-	7,675	7,675
Due from other governments	135,868	-	135,868
Long-term contract, restricted	-	51,239	51,239
Internal balances	104,536	(104,536)	-
Unamortized bond costs	-	11,789	11,789
Capital assets, net	1,083,420	3,443,269	4,526,689
Total assets	\$ 2,481,227	\$ 3,754,845	\$ 6,236,072
Liabilities			
Accounts payable	\$ 11,558	\$ 6,626	\$ 18,184
Accrued payroll and liabilities	2,143	-	2,143
Accrued interest	-	8,300	8,300
Noncurrent liabilities:			
Revenue bonds due within one year	-	18,000	18,000
Revenue bonds due in more than one year	-	381,000	381,000
Total liabilities	13,701	413,926	427,627
Net Assets			
Investment in capital assets, net	1,083,420	3,044,269	4,127,689
Restricted:			
Streets and local roads	129,012	-	129,012
Debt service	-	215,962	215,962
Unrestricted	1,255,094	80,688	1,335,782
Total net assets	\$ 2,467,526	\$ 3,340,919	\$ 5,808,445

The notes to financial statements are an integral part of this statement.

Village of Metamora, Michigan

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities:			
General government	\$ 105,547	\$ 7,000	\$ -
Public works	160,379	-	40,314
Total governmental activities	265,926	7,000	40,314
Business type activities:			
Water and sewer	217,946	182,437	-
Interest on long-term debt	21,593	-	-
Total business type activities	239,539	182,437	-
Total primary government	\$ 505,465	\$ 189,437	\$ 40,314

General revenue:

Property taxes

State sources

Unrestricted investment income

Miscellaneous revenue

Total general revenue

Change in net assets

Net assets, beginning of year

Net assets, end of year

The notes to financial statements are an integral part of this statement.

Statement of Activities
For the Year Ended March 31, 2008

Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets		
	Primary Government		Total
	Governmental Activities	Business Type Activities	
	\$ (98,547)	\$ -	\$ (98,547)
<u>170,676</u>	<u>50,611</u>	<u>-</u>	<u>50,611</u>
170,676	(47,936)	-	(47,936)
-	-	(35,509)	(35,509)
<u>-</u>	<u>-</u>	<u>(21,593)</u>	<u>(21,593)</u>
	-	(57,102)	(57,102)
<u>\$ 170,676</u>	<u>(47,936)</u>	<u>(57,102)</u>	<u>(105,038)</u>
	328,436	-	328,436
	38,980	-	38,980
	58,124	15,346	73,470
	<u>24,318</u>	<u>-</u>	<u>24,318</u>
	<u>449,858</u>	<u>15,346</u>	<u>465,204</u>
	401,922	(41,756)	360,166
	<u>2,065,604</u>	<u>3,382,675</u>	<u>5,448,279</u>
	<u>\$ 2,467,526</u>	<u>\$ 3,340,919</u>	<u>\$ 5,808,445</u>

The notes to financial statements are an integral part of this statement.

**Governmental Funds
Balance Sheet
March 31, 2008**

	Major Funds				
	General	Major Street	Local Street	Downtown Development Authority	Total Governmental Funds
Assets					
Assets					
Cash and cash equivalents	\$ 331,617	\$ 61,328	\$ 62,573	\$ 701,885	\$ 1,157,403
Receivables:					
Other governmental units	26,701	5,577	1,534	102,056	135,868
Due from other funds	34,790	-	-	104,536	139,326
Total assets	<u>\$ 393,108</u>	<u>\$ 66,905</u>	<u>\$ 64,107</u>	<u>\$ 908,477</u>	<u>\$ 1,432,597</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 9,558	\$ 1,250	\$ 750	\$ -	\$ 11,558
Accrued payroll and liabilities	2,143	-	-	-	2,143
Due to other funds	-	-	-	34,790	34,790
Deferred revenue	20,916	-	-	-	20,916
Total liabilities	32,617	1,250	750	34,790	69,407
Fund Balances					
Reserved-long-term advance	-	-	-	104,536	104,536
Unreserved	360,491	65,655	63,357	769,151	1,258,654
Total fund balance	360,491	65,655	63,357	873,687	1,363,190
Total liabilities and fund balances	<u>\$ 393,108</u>	<u>\$ 66,905</u>	<u>\$ 64,107</u>	<u>\$ 908,477</u>	<u>\$ 1,432,597</u>

The notes to financial statements are an integral part of this statement.

Village of Metamora, Michigan**Reconciliation of Fund Balance on the Balance Sheet for
Governmental Funds to Net Assets of Governmental Activities
on the Statement of Net Assets
March 31, 2008**

Total fund balances, governmental funds \$ 1,258,654

Amounts reported for governmental activities in the statement of net assets
are different because:

Other long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds:

Receivable from State for capital project 20,916

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets	1,204,795	
Accumulated depreciation	<u>(121,375)</u>	<u>1,083,420</u>

Net assets, governmental activities \$ 2,362,990

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
For the Year Ended March 31, 2008

	Major Funds				Total Governmental Funds
	General	Major Street	Local Street	Downtown Development Authority	
Revenue					
Property taxes	\$ 226,380	\$ -	\$ -	\$ 102,056	\$ 328,436
Licenses and permits	1,989	-	-	-	1,989
State sources	38,980	31,619	8,695	-	79,294
Federal sources	149,760	-	-	-	149,760
Charges for services	7,000	-	-	-	7,000
Interest income	14,132	2,309	2,613	39,070	58,124
Rental income	19,848	-	-	-	19,848
Miscellaneous	2,481	-	-	-	2,481
Total revenue	460,570	33,928	11,308	141,126	646,932
Expenditures					
General government	89,776	-	-	11,189	100,965
Public works	209,625	19,288	9,332	672,277	910,522
Total expenditures	299,401	19,288	9,332	683,466	1,011,487
Excess of revenue over expenditures	161,169	14,640	1,976	(542,340)	(364,555)
Other Financing Sources (Uses)					
Transfers in	-	-	-	111,718	111,718
Transfers out	(111,718)	-	-	-	(111,718)
Total other financing sources (uses)	(111,718)	-	-	111,718	-
Excess of revenue and other financing sources over expenditures and other financing uses	49,451	14,640	1,976	(430,622)	(364,555)
Fund balances, beginning of year	311,040	51,015	61,381	1,304,309	1,727,745
Fund balances, end of year	\$ 360,491	\$ 65,655	\$ 63,357	\$ 873,687	\$ 1,363,190

The notes to financial statements are an integral part of this statement.

Village of Metamora, Michigan**Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2008**

Net change in fund balances, governmental funds \$ (364,555)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	774,397	
Depreciation expense	<u>(28,836)</u>	745,561

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Receivable from State reported as deferred revenue	<u>20,916</u>
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Change in net assets, governmental activities	<u>\$ 401,922</u>
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The accompanying notes are an integral part of these financial statements.

Village of Metamora, Michigan**Proprietary Funds
Statement of Net Assets
March 31, 2008**

	Business Type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 107,847	\$ 61,502	\$ 169,349
Accounts receivable	5,317	5,395	10,712
Total current assets	113,164	66,897	180,061
Noncurrent assets:			
Restricted for debt retirement:			
Cash and cash equivalents	165,348	-	165,348
Long-term contracts	51,239	-	51,239
Accounts receivable	7,675	-	7,675
Total restricted for debt retirement	224,262	-	224,262
Capital assets, net	2,351,439	1,091,830	3,443,269
Unamortized bond costs	11,789	-	11,789
Total noncurrent assets	2,587,490	1,091,830	3,679,320
Total assets	<u>\$ 2,700,654</u>	<u>\$ 1,158,727</u>	<u>\$ 3,859,381</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 2,772	\$ 3,854	\$ 6,626
Accrued interest	8,300	-	8,300
Due to other funds	-	-	-
Revenue bonds payable, due within one year	18,000	-	18,000
Total current liabilities	29,072	3,854	32,926
Long-term liabilities:			
Advance from component units	-	104,536	104,536
Long-term debt, net of current portion	381,000	-	381,000
Total long-term liabilities	381,000	104,536	485,536
Total liabilities	410,072	108,390	518,462
Net Assets			
Investment in capital assets, net	1,952,439	1,091,830	3,044,269
Restricted for debt	215,962	-	215,962
Unrestricted	122,181	(41,493)	80,688
Total net assets	<u>\$ 2,290,582</u>	<u>\$ 1,050,337</u>	<u>\$ 3,340,919</u>

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended March 31, 2008

	Business Type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
Operating Revenue			
Sale of water	\$ -	\$ 55,722	\$ 55,722
Sewage disposal charges	50,016	-	50,016
Debt service usage charges	72,199	-	72,199
Other	4,500	-	4,500
Total operating revenue	126,715	55,722	182,437
Operating Expenses			
Contracted services	37,079	30,160	67,239
Repairs	-	1,390	1,390
Supplies	2,631	942	3,573
Utilities	4,775	7,166	11,941
Administration	7,417	3,585	11,002
Depreciation	73,481	49,320	122,801
Total operating expenses	125,383	92,563	217,946
Operating income (loss)	1,332	(36,841)	(35,509)
Nonoperating Revenue (Expense)			
Investment income	15,036	310	15,346
Interest expense	(21,593)	-	(21,593)
Total nonoperating revenue (expense)	(6,557)	310	(6,247)
Change in net assets	(5,225)	(36,531)	(41,756)
Net assets, beginning of year	2,295,807	1,086,868	3,382,675
Net assets, end of year	<u>\$ 2,290,582</u>	<u>\$ 1,050,337</u>	<u>\$ 3,340,919</u>

Proprietary Funds
Statement of Cash Flows
March 31, 2008

	Business Type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 132,938	\$ 55,642	\$ 188,580
Payments to suppliers	(49,214)	(41,677)	(90,891)
Net cash provided by operating activities	83,724	13,965	97,689
Cash flows from noncapital financing activities:			
Interfund activity	(8,000)	(2,000)	(10,000)
Cash flows from capital and related financing activities:			
Additions to capital assets	(6,932)	(3,850)	(10,782)
Other	-	1	1
Principal paid on bond debt	(86,000)	-	(86,000)
Interest paid on bond debt	(23,393)	-	(23,393)
Net cash used by capital and related financing activities	(116,325)	(3,849)	(120,174)
Cash flows from investing activities:			
Investment income	15,036	310	15,346
Net increase (decrease) in cash and cash equivalents	(25,565)	8,426	(17,139)
Cash and cash equivalents, beginning of year	298,760	53,076	351,836
Cash and cash equivalents, end of year	<u>\$ 273,195</u>	<u>\$ 61,502</u>	<u>\$ 334,697</u>
Reconciliation of net loss to net cash provided by operating activities:			
Operating income (loss) for the year	\$ 1,332	\$ (36,841)	\$ (35,509)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense	73,481	49,320	122,801
Amortization of bond costs	2,360	-	2,360
Change in assets and liabilities:			
Accounts receivable	6,224	(80)	6,144
Accounts payable	327	1,566	1,893
Net cash provided by operating activities	<u>\$ 83,724</u>	<u>\$ 13,965</u>	<u>\$ 97,689</u>

The notes to financial statements are an integral part of this statement.

**Fiduciary Funds
Statement of Net Assets
March 31, 2008**

	<u>Escrow Account</u>
Assets	
Cash and cash equivalents	<u>\$ 909</u>
Liabilities	
Accounts payable	<u>\$ 909</u>

The notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Metamora, Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit discussed below is included in the Village's reporting entity because of its operational or financial relationship with the Village.

Blended Component Unit

The financial statements of the following component unit have been "blended" with those of the Village because the component unit provides services entirely to the Village.

Downtown Development Authority – The members of the governing board of the Downtown Development Authority (DDA) are appointed by the Village Council. The budgets and expenditures of the DDA must be approved by the Village Council. The Village also has the ability to significantly influence operations of the DDA. Complete separate financial statements of the DDA are not prepared.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business type activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Village reports the following major governmental funds:

The *General fund* is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The *Major Street fund* is used to account for the maintenance and construction of the Village's major street system.

The *Local Street fund* is used to account for the maintenance and construction of the Village's local street system.

The *Downtown Development Authority* assists the Village in financing improvements to the downtown area.

The Village reports the following major enterprise funds:

The *Sewer fund* is used to account for the revenues and expenses for the operation of the sewer system.

The *Water fund* is used to account for the revenues and expenses for the operation of the water system.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables

Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after April 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 40 years
Machinery and equipment	7 - 10 years
Office equipment	5 years
Water and sewer distribution systems	10 - 50 years
Infrastructure	20 years

Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Property Taxes

Village property taxes become an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14.

The 2007 taxable valuation of the Village totaled \$20,046,930, on which ad valorem taxes levied consisted of 10.4711 mills for the Village's operating purposes.

The delinquent real property taxes of the Village are purchased by Lapeer County. The delinquent real property taxes are received before year end.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Clerk submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted by adoption of the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General fund and major Special Revenue funds budgets as originally adopted and amended by the Village Council is included in the required supplementary information.
7. All annual appropriations lapse at fiscal year end.

The Village overexpended its budget in the following areas:

<u>Fund</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Excess</u>
Primary government:			
General fund:			
Streetscape project	\$ 25,000	\$ 170,674	\$ 145,674
Special revenue funds:			
Major Street			
Snow removal supplies	4,500	4,952	452
Component units:			
Downtown Development Authority			
General government	7,000	11,189	4,189

3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the Council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Village's deposits and investment policy are in accordance with statutory authority.

The Village's deposits and investments at March 31, 2008 are included in the statement of net assets under the following categories:

	Governmental Activities	Business Type Activities	Total
Cash and cash equivalents	\$ 1,157,403	\$ 169,349	\$ 1,326,752
Restricted cash and cash equivalents	-	165,348	165,348
	<u>\$ 1,157,403</u>	<u>\$ 334,697</u>	<u>\$ 1,492,100</u>

Deposits and Investments

The Village's cash accounts are maintained at one bank using accounts which "sweep" excess cash balances into Governmental Investment Funds. At March 31, 2008, the Village's deposits and investment balances were as follows:

	Primary Government	Fiduciary Fund
Deposits	\$ 120,100	\$ 909
Investments	1,372,000	-
	<u>\$ 1,492,100</u>	<u>\$ 909</u>

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, the Village had uninsured deposits of \$ 4,243.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Primary government	\$1,372,000	Not rated	N/A

4. RESTRICTED ASSETS AND BOND RESERVES

Sewer Revenue Bond

The Sewer revenue bonds are to be repaid with revenues generated by user connection fees plus debt service charges of \$21 per customer per month. The system includes approximately 220 billable units. The Village is committed to maintaining the following reserves:

Bond reserve – quarterly deposits of \$1,875 are due until the balance is \$73,000.

Although the Village has not maintained separate bank balances for each of these funds, it has deposited all connection fees collected and debt service charges in a separate bond retirement account which has a balance of \$165,348 at March 31, 2008. The cash funds and accounts receivable balance have been included in the Sewer funds statement of net assets as restricted for debt service.

5. CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2008 was as follows:

	Balance April 1, 2007	Additions	Retirements	Balance March 31, 2008
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 46,475	\$ 257,439	\$ -	\$ 303,914
Construction in progress-infrastructure	41,195	37,200	41,195	37,200
Total nondepreciable capital assets	87,670	294,639	41,195	341,114
Depreciable capital assets:				
Buildings and improvements	133,026	-	-	133,026
Machinery and equipment	35,092	-	-	35,092
Office equipment	2,705	-	-	2,705
Infrastructure	171,905	520,953	-	692,858
Total depreciable capital assets	342,728	520,953	-	863,681
Less accumulated depreciation	92,539	28,836	-	121,375
Depreciable capital assets, net	250,189	492,117	-	742,306
Capital assets, net	<u>\$ 337,859</u>	<u>\$ 786,756</u>	<u>\$ 41,195</u>	<u>\$ 1,083,420</u>
Business type activities:				
Nondepreciable capital assets:				
Sewer land	\$ 115,744	\$ -	\$ -	\$ 115,744
Water land	6,515	-	-	6,515
Total nondepreciable capital assets	122,259	-	-	122,259
Depreciable capital assets:				
Sewer system	2,923,100	6,932	-	2,930,032
Water system	1,645,471	3,850	-	1,649,321
Total depreciable capital assets	4,568,571	10,782	-	4,579,353
Less accumulated depreciation	1,135,541	122,801	-	1,258,342
Depreciable capital assets, net	3,433,030	(112,019)	-	3,321,011
Capital assets, net	<u>\$ 3,555,289</u>	<u>\$ (112,019)</u>	<u>\$ -</u>	<u>\$ 3,443,270</u>
Governmental activities				
General government		\$ 4,584		
Public works		24,252		
Total governmental activities		<u>\$ 28,836</u>		
Business type activities				
Sewer		\$ 73,481		
Water		49,320		
Total business type activities		<u>\$ 122,801</u>		

6. LONG-TERM LIABILITIES

At March 31, 2008 long-term debt consists of the following obligation:

	Balance April 1, 2007	Additions	Retirements	Balance March 31, 2008	Due Within One Year
Business type activities					
1997 sewer revenue bonds, due annually in amounts ranging from \$18,000 to \$34,000, plus interest due semiannually at 5%	\$ 485,000	\$ -	\$ 86,000	\$ 399,000	\$ 18,000

The annual aggregate maturities for the obligations are as follows:

Fiscal Year	Principal	Interest	Total
2009	\$ 18,000	\$ 19,500	\$ 37,500
2010	19,000	18,575	37,575
2011	20,000	17,600	37,600
2012	21,000	16,575	37,575
2013-2017	120,000	65,750	185,750
2018-2022	146,000	32,600	178,600
2023-2024	55,000	2,425	57,425
	<u>\$ 399,000</u>	<u>\$ 173,025</u>	<u>\$ 572,025</u>

7. RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business type activities in the aggregate are as follows:

	Governmental Activities	Business Type Activities
Receivables		
Accounts	\$ -	\$ 18,751
Intergovernmental	25,476	-
Amounts due from utility connection fees	-	57,019
Total receivables	<u>\$ 25,476</u>	<u>\$ 75,770</u>
Payables and accrued expenses		
Accounts	\$ 10,975	\$ 4,733
Accrued taxes	2,041	-
Interest	-	10,100
Total payables and accrued expenses	<u>\$ 13,016</u>	<u>\$ 14,833</u>

The accounts receivable are reported net of allowances for uncollectible accounts of \$2,000.

The amounts due for utility connection fees are due over a 40 year period and bear interest at 6.25% annually. The annual principal due under these agreements approximates \$2,200.

8. INTERFUND TRANSACTIONS

The composition of interfund receivable and payable balances at March 31, 2008 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Downtown Development Authority	\$ 34,790

These balances resulted from a time lag between the dates that (1) interfund goods and services are provided, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Advance

Prior to 2004, the Metamora DDA advanced funds to the Village's Water fund for the construction of a water well. The loan is being paid as funds are collected from water connection fees and is non-interest bearing. As of March 31, 2008, the DDA has advanced \$104,536 to the Water fund.

Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General fund	Downtown Development Authority	\$ 111,718

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

9. COMMITMENTS

At March 31, 2008, the Village road construction commitments of approximately \$70,000.

10. RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation).

The Village participates in the Michigan Municipal Liability and Property Pool (the "Pool") for workers' compensation and property risk. The Pool is a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium for its insurance coverage. The Pool is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies.

Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

11. ECONOMIC DEPENDENCY AND CREDIT RISK**Concentrations**

One taxpayer, a local manufacturer, accounts for approximately 16 percent of the Village's property tax revenue.

Credit Risk

The Village grants credit to its residents for water and sewer services.

Note 12 – Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Due from other governments	\$ 20,916	\$ -

REQUIRED SUPPLEMENTARY INFORMATION

General Fund
Budgetary Comparison Schedule
For the Year Ended March 31, 2008

	Original Budget	Amended Budget	Actual	Actual Over (under) Budget
Revenue				
Property taxes	\$ 220,000	\$ 220,000	\$ 226,380	\$ 6,380
Licenses and permits	1,000	1,000	1,989	989
State sources	37,000	37,000	38,980	1,980
Federal sources	-	-	149,760	149,760
Charges for services	8,000	8,000	7,000	(1,000)
Interest income	10,000	10,000	14,132	4,132
Rental income	14,000	14,000	19,848	5,848
Miscellaneous	1,500	1,500	2,481	981
Total revenue	291,500	291,500	460,570	169,070
Expenditures				
General government:				
Council:				
President's wage	1,260	1,260	1,260	-
Council wages and expenses	5,100	5,100	3,822	(1,278)
Audit	12,000	12,000	10,375	(1,625)
Legal	12,000	12,000	11,093	(907)
Printing	1,800	1,800	355	(1,445)
Dues	2,000	2,000	3,194	1,194
Insurance	15,000	15,000	9,288	(5,712)
Transportation	400	400	325	(75)
Other	2,600	2,500	2,326	(174)
Total council	52,160	52,060	42,038	(10,022)
Clerk:				
Wages-elected	22,754	22,754	22,754	-
Assistant clerk wage	5,000	5,000	1,630	(3,370)
Health insurance	4,000	4,000	2,626	(1,374)
Repairs	500	500	-	(500)
Supplies	2,500	2,500	1,562	(938)
Equipment	3,000	3,000	875	(2,125)
Dues	700	700	120	(580)
Other	845	945	27	(918)
Total clerk	39,299	39,399	29,594	(9,805)
Treasurer:				
Wages-elected	12,641	12,641	12,641	-
Supplies	500	500	161	(339)
Printing	1,000	1,000	375	(625)
Bond	751	751	-	(751)
Repairs	100	100	-	(100)
Total treasurer	14,992	14,992	13,177	(1,815)
Elections:				
Wages	-	400	373	(27)
Expenses	-	1,210	1,101	(109)
Total elections	-	1,610	1,474	(136)

General Fund
Budgetary Comparison Schedule
For the Year Ended March 31, 2008
(Continued)

	Original Budget	Amended Budget	Actual on Budgetary Basis	Actual Over (under) Budget
Planning and zoning:				
Wages-board	1,600	1,600	1,105	(495)
Inspections	900	900	724	(176)
Printing and publishing	1,800	1,800	-	(1,800)
Professional services	18,000	18,000	1,639	(16,361)
Other	500	500	25	(475)
Total planning and zoning	22,800	22,800	3,493	(19,307)
Total general government	129,251	130,861	89,776	(41,085)
Public works:				
Sewer-water administration wages	2,500	2,500	1,760	(740)
DPW wages	17,000	17,000	12,139	(4,861)
Payroll taxes	5,500	5,500	4,418	(1,082)
Supplies	5,100	5,100	3,744	(1,356)
Street lighting	9,000	9,000	7,945	(1,055)
Utilities	6,000	6,000	3,893	(2,107)
Repairs	4,000	4,000	104	(3,896)
Streetscape project	-	25,000	170,674	145,674
Other	10,000	10,000	4,948	(5,052)
Total public works	59,100	84,100	209,625	125,525
Total expenditures	188,351	214,961	299,401	84,440
Excess of revenues over expenditures	103,149	76,539	161,169	84,630
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(120,000)	(120,000)	(111,718)	8,282
Total other financing sources (uses)	(120,000)	(120,000)	(111,718)	8,282
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(16,851)	(43,461)	49,451	92,912
Fund balance, beginning of year	311,040	311,040	311,040	-
Fund balance, end of year	\$ 294,189	\$ 267,579	\$ 360,491	\$ 92,912

Special Revenue Fund
Major Road Fund
Budgetary Comparison Schedule
For the Year Ended March 31, 2008

	Major Road Fund			
	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenue				
State sources	\$ 32,000	\$ 32,000	\$ 31,619	\$ (381)
Interest income	1,000	300	2,309	2,009
Total revenue	33,000	32,300	33,928	1,628
Expenditures				
Public works:				
Routine maintenance, wages	2,000	2,000	-	(2,000)
Routine maintenance, supplies	2,000	2,000	1,274	(726)
Routine maintenance, contractual	10,000	10,000	727	(9,273)
Traffic services, materials	500	500	-	(500)
Traffic services, other	1,000	1,000	-	(1,000)
Snow removal, supplies	4,500	4,500	4,952	452
Snow removal, contractual services	14,010	14,010	12,067	(1,943)
Administration	268	268	268	-
Total expenditures	34,278	34,278	19,288	(14,990)
Excess of revenue over (under) expenditures	(1,278)	(1,978)	14,640	16,618
Fund balance, beginning of year	51,015	51,015	51,015	-
Fund balance, end of year	<u>\$ 49,737</u>	<u>\$ 49,037</u>	<u>\$ 65,655</u>	<u>\$ 16,618</u>

Special Revenue Fund
Local Road Fund
Budgetary Comparison Schedule
For the Year Ended March 31, 2008

	Local Road Fund			
	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenue				
State sources	\$ 9,000	\$ 9,000	\$ 8,695	\$ (305)
Interest income	2,000	2,000	2,613	613
Total revenue	11,000	11,000	11,308	308
Expenditures				
Public works:				
Routine maintenance, wages	1,500	1,500	-	(1,500)
Routine maintenance, supplies	2,000	2,000	-	(2,000)
Routine maintenance, contractual	9,700	9,700	230	(9,470)
Routine maintenance, other	1,000	1,000	-	(1,000)
Traffic services, materials	100	100	-	(100)
Snow removal, supplies	3,000	3,200	3,027	(173)
Snow removal, contractual services	7,990	7,990	5,943	(2,047)
Administration	132	132	132	-
Total expenditures	25,422	25,622	9,332	(16,290)
Excess of revenue over (under) expenditures	(14,422)	(14,622)	1,976	16,598
Fund balance, beginning of year	61,381	61,381	61,381	-
Fund balance, end of year	\$ 46,959	\$ 46,759	\$ 63,357	\$ 16,598

**Blended Component Unit
Budgetary Comparison Schedule
For the Year Ended March 31, 2008**

Component Unit - Downtown Development Authority

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
Revenue				
Captured taxes	\$ 110,167	\$ 110,167	\$ 102,056	\$ (8,111)
Interest income	40,000	40,000	39,070	(930)
Total revenue	150,167	150,167	141,126	(9,041)
Expenditures				
General government	7,000	7,000	11,189	4,189
Public works	1,435,558	1,435,558	672,277	(763,281)
Total expenditures	1,442,558	1,442,558	683,466	(759,092)
Excess of revenue over (under) expenditures	(1,292,391)	(1,292,391)	(542,340)	750,051
Other Financing Sources (Uses)				
Transfers in	106,530	106,530	111,718	5,188
Transfers out	-	-	-	-
Total other financing sources (uses)	106,530	106,530	111,718	5,188
Excess of revenue and other financing sources over (under) expenditures and other financing uses	(1,185,861)	(1,185,861)	(430,622)	755,239
Fund balance, beginning of year	1,304,309	1,304,309	1,304,309	-
Fund balance, end of year	<u>\$ 118,448</u>	<u>\$ 118,448</u>	<u>\$ 873,687</u>	<u>\$ 755,239</u>



SUPPLEMENTARY INFORMATION

Schedule of Bond Indebtedness
Sanitary Sewer System Revenue Bonds
Principal and Interest Obligation as of March 31, 2008

<u>Maturity Date</u>	<u>Principal</u>	<u>Rate</u>	<u>Interest</u>	<u>Total</u>
5/1/2008	\$ 18,000	5.00%	9,975	\$ 27,975
11/1/2008		5.00%	9,525	9,525
5/1/2009	19,000	5.00%	9,525	28,525
11/1/2009		5.00%	9,050	9,050
5/1/2010	20,000	5.00%	9,050	29,050
11/1/2010		5.00%	8,550	8,550
5/1/2011	21,000	5.00%	8,550	29,550
11/1/2011		5.00%	8,025	8,025
5/1/2012	22,000	5.00%	8,025	30,025
11/1/2012		5.00%	7,475	7,475
5/1/2013	23,000	5.00%	7,475	30,475
11/1/2013		5.00%	6,900	6,900
5/1/2014	24,000	5.00%	6,900	30,900
11/1/2014		5.00%	6,300	6,300
5/1/2015	25,000	5.00%	6,300	31,300
11/1/2015		5.00%	5,675	5,675
5/1/2016	26,000	5.00%	5,675	31,675
11/1/2016		5.00%	5,025	5,025
5/1/2017	27,000	5.00%	5,025	32,025
11/1/2017		5.00%	4,350	4,350
5/1/2018	28,000	5.00%	4,350	32,350
11/1/2018		5.00%	3,650	3,650
5/1/2019	29,000	5.00%	3,650	32,650
11/1/2019		5.00%	2,925	2,925
5/1/2020	30,000	5.00%	2,925	32,925
11/1/2020		5.00%	2,175	2,175
5/1/2021	32,000	5.00%	2,175	34,175
11/1/2021		5.00%	1,375	1,375
5/1/2022	34,000	5.00%	1,375	35,375
11/1/2022		5.00%	525	525
5/1/2023	21,000	5.00%	525	21,525
	<u>\$ 399,000</u>		<u>\$ 173,025</u>	<u>\$ 572,025</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Village Council
Village of Metamora
Metamora, Michigan

We have audited the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Village of Metamora, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Village of Metamora, Michigan's basic financial statements and have issued our report thereon dated July 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Village of Metamora, Michigan's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Metamora, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Metamora, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Metamora, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

misstatement of the Village of Metamora, Michigan's financial statements that is more than inconsequential will be not prevented or detected by the Village of Metamora, Michigan's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Governments are required to establish internal controls over processing, recording and summarizing accounting data. As a result of these controls, the government should be able to prepare financial statements in accordance with GAAP. The Village has relied on its independent external auditors to assist in processing, recording and summarizing of certain financial data as part of its external reporting process. The external auditors cannot be considered a part of the Village's internal control system. The Village believes that it is cost effective to rely on its external auditors to recommend these adjusting journal entries. Therefore, the Village lacks internal control over the processing, recording and summarizing of accounting data.

Village management has determined that it is in the Village's best interest to rely on its external auditors to recommend adjustments of these types.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Metamora, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Metamora, Michigan's financial statements are free to material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Village of Metamora, Michigan's response to the findings identified in our audit is described above. We did not audit Village of Metamora, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Village Council, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Hyzer, Hill, Kuzak & Co P.C.

Hyzer, Hill, Kuzak, & CO. P.C.
Bad Axe, Michigan
July 3, 2008

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Bruce Hill

Donald Kuzak

Michael Doerr

MANAGEMENT LETTER

July 3, 2008

Village Council
Metamora, Michigan

We have recently completed our audit of the basic financial statements of the Village of Metamora as of and for the year ended March 31, 2008. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving managements' control and the operational efficiency of the Village's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal financial and compliance controls for audit purposes and our discussions with management.

Budgets for capital projects

The Village Streetscape project is budgeted as expenditures net of grant revenues. These projects should be accounted for so that the total amount spent by the General Fund shows as an expenditure. Any amounts received from grantors should be budgeted as revenues.

DDA advance to Water fund

The Village's Water Fund owes the DDA Fund \$104,536. The Water Fund repays this loan from collections of new user connection fees. Based on historical collections, this advance may be outstanding for a long period of time. The Village and DDA may want to consider cancelling this obligation. The Village should consult legal counsel concerning this matter

The following comments were made in our 2007 and have not been implemented.

- Customer remittances are not endorsed by stamp immediately upon receipt.
- Village disbursement checks require only one signature.
- Street funds do not reimburse the general fund for DPW labor spent on road activities.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the March 31, 2008 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of management and the Village Council of the Village of Metamora, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these conditions with you and to provide assistance in implementation of improvements.

Very truly yours,

A handwritten signature in black ink that reads "Hyzer, Hill, Kuzak & Co. P.C." in a cursive, slightly stylized font.

Hyzer, Hill, Kuzak & Co., P. C.